

ASSIGNMENT QUESTIONS: “Midland Energy”

1. How are Mortensen’s estimates of Midland’s cost of capital used? How, if at all, should these anticipated uses affect the calculations?
2. Calculate Midland’s corporate WACC. Be prepared to defend your specific assumptions about the various inputs to the calculations. Is Midland’s choice of EMRP appropriate? If not, what recommendations would you make and why?
3. Should Midland use a single corporate hurdle rate for evaluating investment opportunities in all of its divisions? Why or why not?
4. Compute a separate cost of capital for the E&P and Marketing & Refining divisions. What causes them to differ from one another?
5. How would you compute a cost of capital for the Petrochemical division?

SUGGESTION: review topics such as the CAPM model, WACC, levered and unlevered betas, risk premiums and capital structure.